A Premium on Service

Interview with Gentaro Kawase, president of Nihon Seimei Hoken, by Toshio Iwasaki, editor of the Journal of Japanese Trade & Industry

As Nihon Seimei Hoken (Nissay) winds up its 100th year in business this July, it finds itself the world's top life insurance company. Nissay has long been Japan's leading insurance company, but it was not until 1988 that it emerged as the worldwide leader in terms of total assets (over ¥20 trillion), value of policies outstanding, value of new policies and total premium revenue.

The man at the helm of this giant corporation is Gentaro Kawase, who has spent more than half a century with Nissay and who assumed the presidency in 1982.

Question: *Not only Nissay, but all of Japan's life insurance companies have seen tremendous growth of late. Yet some people have said that much of this prosperity has come from the "zai-tech" (asset management) boom and the fact that investors have looked very favorably on the high-yield products offered by the life insurance companies.*

Kawase: That has no doubt been a contributing factor. There have been a number of factors even more important to our growth, however: the graying of the Japanese population, the resulting increase in the number of people living on pensions, as well as the increased personal interest in post-retirement financial security as the shift toward the nuclear family continues mean that people can no longer assume their children will look after them.

This is not just a problem for the individual, however. Business also has to adapt to the ballooning burden of retirement pensions in a rapidly aging society. And it is the life insurance industry that is best placed to meet these new demands.

The fact that people are living longer—the graying of Japanese society—is the major cause of the growing burden in pension payments. Although the government can perhaps get away with raising the minimum entitlement age from 60 to 65, private companies cannot. We have solemn contracts with these people, and we have no choice but to honor these contracts through effective management and the intelligent investment of our assets.

Any attempt to change the rules and raise the pay-out age of pensions would result in our forfeiting the public trust and confidence that is so important to our business. We cannot survive unless we honor our commitments, invest wisely, and offer attractive policy terms.

It is this determined effort to meet society's needs that is driving our current business success, and I would hope that people would not overlook this and attribute our success to *zai-tech*, excess liquidity or other chance developments.

Q: *I agree that life insurance companies are well suited to meeting the increased demand for post-retirement security and enabling old people to live in freedom from fear about medical and other expenses. But how can you be sure that you will be able to continue to meet these needs as society ages and the burden of payments goes up?*

A: Remember that this is not a problem that affects only the life insurance industry. The government is also very much involved with its state-run pension plans, including the ones offered by the post office, as are trust banks and commercial banks. In a way, these other players are all competing with the life insurance industry, but as long as each of us sticks to his traditional role, I see no reason why we cannot all work

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together to help people live long and rich lives.

We must deal with the aging of society from the long-term perspective. This is not a problem that can be taken care of with grandstand plays and quick-fix solutions tailored to win passing applause. It might not have the glamor of some other approaches, but the industry has to manage its assets responsibly and earn the continuing trust of the people over the long haul.

For example, there are some very solid companies that will not borrow unless they can get a low interest rate and some not-so-sound companies that will borrow money no matter how high the rate. Looking just at the short term, you can obviously earn a higher return by lending money to the not-so-sound companies. Your risk is greater, however, in that these companies are more likely to go bankrupt and thus default on their loans. Nissay prefers to go the low-risk avenue, even if it means getting a lower return. We know about the high yields available on high-risk loans, but we feel it is more important to keep our clients' trust with a conservative, long-term investment strategy.

Q: *You mentioned your hope that the life insurance companies can cooperate with other financial institutions–each in its own way–in earning the public's trust. But deregulation in the financial sector has encouraged more and more different types of institutions to move in on each other's turf.*

A: There is no doubt that some of the old walls are coming down. The trust banks, for example, are moving into the private pension sector. We feel that private pension plans are an integral part of our business, and the life insurance industry has a long record of providing these pension services. But that is not to say that we have any objection to trust banks entering into the business of private pensions–so long as this is done within the letter and the spirit of the law and so long as the life insurance industry gets reciprocal opportunities.

If trust banks can add private pension management to their traditional role as trustees, then it is only fair that life insurance companies be allowed into the trust business. If the distinctions are eliminated on a reciprocal basis, then I think deregulation will result in healthy competition and better service, and the public will be the ultimate beneficiary.

Of course, the trust banks are not our only problem. We are also concerned about the life insurance offered by the postal service. Nissay may be the No. 1 private life insurance company in the world, but there is no way we can compete on an equal footing with a government-backed institution such as the post office. So we had to object when the government tried to raise the maximum policy from ¥10 million, where it has been for years, to ¥20 million. Deregulation is fine, but it has to be deregulation that will promote competition, not stifle it.

At the same time, deregulation is not just a domestic concern. Before long, we will have to face the question of tearing down regulatory barriers between industries on an international scale as well–as soon will be the case in the EC's 1992 integration–and this is all the more reason for achieving a domestic consensus on this and getting our own house in order. Each industry has its own emphases and wish lists, but we all have to work together on this and come up with the system that is the most equitable for everyone.

Q: *You mentioned the international scene, and this is another area where Nissay has been active. In fact, all of the Japanese life insurance companies have received a lot of publicity with the purchase of U.S. Treasury bonds, real estate investment and so on–and the Japanese term "seiho" has even made it into the English lexicon to mean Japanese life insurance companies.*

A: It is true that we have been quite active in overseas markets. This we have done because we thought these were good investments. And it is also true, as some people have pointed out, that we have suffered large paper losses as the dollar has plummeted in value. But there is no truth whatsoever in the rumors that Japanese life insurance companies were fully aware of the dollar's impending collapse and bought the bonds anyway to prop up the U.S. government.

As I said before, our first duty is to our clients and policyholders, and we owe it to them to invest our money in the safest, most effective way possible. I assure you we would not be so foolish as to forfeit our credibility by purposely making bad investments. This is not something we would want to do, it is not something that we would do, and it is not something that we could do.

As far as our real estate investments are concerned, it is not as if we are on a land-buying spree, driving prices up, reselling at huge profits, disrupting the markets and generally upsetting the local populace. Since everyone thinks the *seiho* are awash in capital, any time a Japanese entity makes an unpopular real estate purchase, people assume it is *seiho* money. In a way, *seiho* have come to be the whipping boy for investment friction.

Q: *Even if we accept that the seiho have been well behaved in their overseas investments, it seems inevitable that overseas investments' increasing importance will mean more problems in the future.*

A: There is no question that overseas markets are becoming more important. In the rapid growth of the 1960s, Japanese industry was starved of capital and relied almost exclusively on loans to finance its growth. Today, however, most companies are flush with capital from their own retained earnings, market procurement and other means, with the result that the life insurance companies and other financial institutions can no longer count on strong capital demand from the Japanese private sector.

As a result, we have to put our capital to work overseas. There is no reason, however, why this flow of capital out of Japan has to continue unabated. In fact, there is a very real possibility that the flow could be reversed as these overseas assets are liquidated in the future.

So the real question is whether or not the *seiho* can continue to be more successful than the other financial institutions in attracting investment capital to manage. I am not all that confident about this. There is no guarantee that the *seiho* will always be able to invest their money more effectively than other financial institutions, because basically there is very little difference in the way the various institutions invest their funds.

The reason the *seiho* offer such good interest rates is that they have so much in the way of accumulated reserves. For example, almost all of an insurance company's outstanding lending is long-term. Thus the loans made back when interest rates were high are still yielding those high rates, even though interest rates have since fallen. As a consequence, our interest revenues are well above average.

At the same time, the book value of our securities and real estate holdings is well below their actual market value, and we have the potential for enormous profits if we liquidate a portion of those holdings.

However, this advantage cannot last forever. Things will change before long, and when they do, we will be on the same footing as other financial institutions in the competition for capital. So the question is whether or not we will be able to continue to expand our overseas investment in the face of these changes. As I said, it is quite possible that we will have to pull out of many of our investments overseas.

It has become popular of late to lump all of Japan's life insurance companies together and refer to *seiho* investments as if this were some kind of monolith, but such generalizations are becoming increasingly invalid. There will be some life insurance companies that will continue investing overseas and some that will scale back. This is precisely why, as I mentioned, sound management is the key to success in the life insurance industry—however stuffy it many sound. Solid money management based on a long-term strategy is the only way to go.

Q: *Nissay will celebrate its centennial this July. As president, do you have any special thoughts you could share with us on this past century?*

A: Until recently, Nissay did almost all of its business in Japan. But given the present trend toward globalization, we have to work on expanding our overseas operations. Very broadly, a life insurance company's operations can be divided into two categories: asset management and insurance.

On the asset management side, Nissay is already well on its way to becoming more international. As of the end of 1987, our total overseas investments outstanding stood at ¥2.9 trillion, or 16.3% of our general assets. We are also cooperating with Shearson Lehman Hutton in New York to give our people training in how a leading foreign company does things. Eventually, we hope to put those employees to work in the overseas investment and asset management sector.

On the insurance side, it is important to remember that our products are different from the manufacturing sector's products, and that these differences inevitably result in a number of limitations and restrictions. For example, mortality rates vary from country to country, and it would be impossible to have the same insurance premiums worldwide.

Consequently, I think we need tie-ups with foreign insurance companies to successfully sell insurance outside of Japan. In fact, we already provide group insurance through agreements with major insurers in a number of countries to serve the needs of people employed by Japanese subsidiaries and affiliates overseas.

In addition, we have started going into reinsurance with other insurance companies worldwide, sharing our insurance expertise to write better policies and provide better service to our clients. In all of these ways, Nissay hopes to develop into a truly international leader in its second hundred years.

Rumors that Japanese life insurance firms bought bonds to prop up the U.S. government are untrue.

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